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Globalization and Neoliberalism: Economy and Society in Latin America

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I. Introduction

In the 1980s, Latin America experienced the worst economic crisis in history. Economic stagnation and financial crises created havoc among the Latin American economies. The policies that were proposed to end this nightmare, that ultimately were implemented, meant a radical break with the model of development that had been pursued by most Latin American countries for the last fifty years. The restructuring of the economies along proposed neoliberal lines has taken place under conditions of increasing globalization – for example, the objectives of these processes had to be realized increasingly within globally defined parameters and structures. The relations between state and civil society experienced significant changes regarding the legitimacy and effectiveness of the traditional structures of interest representation of groups and classes in many countries. This article will explore the nature of these changes, the impact of the neoliberal offensive for economy and society, and the prospects for alternative development strategies and sociopolitical scenarios.

II. Antecedents

Since the 1930s, economic, social and political processes in most Latin American countries were coordinated through what Cavarozzi has called a state-centered matrix (SCM) (Cavarozzi, 1993:665-684; 1994:127-156). This concept implies a double dependency in state-civil society relations. Social actors such as industrial workers, state bureaucrats, members of the middle class, all forming part of the urban-industrial complex, became a factor of sociopolitical importance, but they depended on the state for the realization of their demands and aspirations. The state in turn needed the support of these actors to give its functioning a certain basis of legitimacy. The SCM was obviously the stereotypical configuration under populist rule when those sectors associated with the model of import-substituting

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industrialization were integrated into corporatist structures, and formed the social basis and political force for the state. However, the presence of SCM was not limited to populist rule. Populism was not the only political formula that emerged under the model of *desarrollo hacia adentro* (inward directed development), although -admittedly- it was the most important.[1] These political solutions to a highly complex economic and social situation, shared a common emphasis on an all-encompassing trend toward state intervention in all spheres of economic, social, political and cultural life. The trend was supported by politicians of widely differing political persuasions. Although the specific content of policies depended on the composition and orientation of the supporting class alliance (see Collier and Collier, 1991; di Tella, 1964:47-74; Smith, 1998:51-74).

The state thus became a 'developmental state' that not only provided most of the infrastructure that supported the development process, but -in the long-term- extended its power and influence to all those areas that had' developmental impact. In this manner, in addition to the essential concerns with internal order, the continuity, and the external relations of the societal system, state action came to include an ever-increasing number of interventions (see Kruijt and Vellinga 1980).[2] At the same time, however, the state had not strengthened its capacity to define policies that went beyond the interests of the many narrow social groups that had established particularistic links to public agencies. These policies produced a social fragmentation that served the objectives of political control, but made it increasingly difficult to create a sufficiently strong social basis for broad development-related policies. The continuous growth of the state apparatus was not accompanied by an equal growth in internal coordination, efficiency and effectiveness of state action, and lacked autonomy with regard to particularistic demands. As a result, private interest infiltrated public institutions and, in fact, 'captured' parts of the state (Weyland, 1996). This process increasingly weakened the state's potential to pursue overarching interests, especially macroeconomic ones. In this socially fragmented situation, corporatist and clientelist political practices acquired a new functionality, controlling social tensions in societies characterized by an extremely unequal distribution of wealth, income and access to resources that affect social mobility.

Import substituting industrialization had become the core element of the development strategy. With this strategy, the state took care of the necessary physical and economic infrastructure. It also invested directly in the economy through the creation of large state-firms in sectors defined as 'strategic' and supporting economic self-reliance. Industrial growth was further promoted through the organization of development banks, regional development corporations, and through measures in the areas of import duties, exchange rates and price controls. The idea was to create a protected internal market where the industrialization process would have the opportunity to take-off behind high tariff walls, unharmed by foreign competition. Foreign investment was subjected to stern regulation. Some strategic sectors were brought under domestic control through the nationalization of foreign firms. State intervention was replacing the market in the allocation of economic resources. This all, obviously, refers to a basic pattern, with considerable differences between the individual countries in its application (cf. Smith, 1998:68-69).

The strategy managed to produce impressive growth rates during the three decades following the Second World War. Between 1945 and 1973, Latin America's GDP grew by an annual average of 5.3 percent. Labor productivity increased at an annual rate of 3 percent. These are impressive results. However, in the course of the 1960s, import substituting industrialization encountered more and more difficulties. It appeared to defeat its own objectives when it produced a growing dependence on imports in other sectors. The development model of which it was such a central part, failed to produce more pluralistic power-structures, and to promote a genuine democratization and a redistribution of income and wealth, as originally was thought it would. Populism appeared to be a political formula that depended on continuing economic growth. With the decline of Latin America's traditional exports on the world market, its political basis disintegrated. The growing economic problems resulted in hyperinflation, capital flight, de-investment, balance of payments problems, massive unemployment and negative growth, creating a political crisis (Thorpe, 1998).

The class alliance identified with the economic growth model of import substituting industrialization that had supported the populist regimes, had been dominated by urban middle and upper-middle class groups in addition to important sectors of the urban working class, forming a mass electoral base. In the course of the growth process, the differentiation of the economic structure it induced, and the expansion of the state apparatus it entailed, this alliance came to include a new social segment of managers, bureaucrats, professionals and technocrats. They developed their own relationship with the national and international business communities. Together with sectors of the middle classes and the bourgeoisie, explicitly excluding the popular classes, they formed an important new alliance that along with the military opted for a bureaucratic-authoritarian solution to the crisis of the model of import substitution, the collapse of populist rule and the failure of the brief democratic interlude that some countries had experienced.[3]

Several countries suffered military coups. Brazil, Argentina and Chile were the more spectacular cases, but also in the Andean countries and in Central America military-controlled regimes were established. Several of these regimes consolidated extensive state control over those institutions considered economically and politically strategic. The objective was to continue the process of capitalist industrialization under control of a technocracy that would operate with a certain autonomy toward civil society and would put an end to the growing politicization of economic decision making in the previous period (O'Donnell, 1973).

As part of the 'package', economic adjustments and measures of inflation control were implemented that, in practice, affected strongly the income situation of the working masses. Their organizations and actions were military-controlled and repressed in an attempt to neutralize the labor movement and eventually eliminate the popular masses as a power-factor in the national political area. However, the military's ambition to change – and in a radical way – state-civil society relations, was unsuccessful and the military control of the state apparatus was undone in subsequent years.

From the mid-1980s onwards, and under a different regime, state-civil society relations have experienced significant changes. This time, however, the changes have taken place in response to a totally different economic and political conjuncture. In the 1970s, many countries in Latin America experienced moments of substantial economic growth. However, this growth was to an important extent artificial and had become dependent upon external financing. The external debt grew spectacularly. It increased from USD 27 billion in 1970 to 231 billion in 1980, and 434 billion in 1990. The yearly payments to service the debt increased from USD 18 billion in 1980 to 33 billion in 1990, and consumed the greater part of export income. Moreover, this income was negatively influenced when the increase in exports (57 percent in the period 1980-1988) and the decline in imports (9 percent in the same period), while affecting the balance of trade positively, were unable, because of low world market prices for those products dominantly present in the Latin American export package, to contribute substantially to solving the balance of payment problems. Between 1982 and 1990, the Latin American countries transferred a net amount of USD 203 billion in debt service payments to financial institutions in the western industrialized countries. Capital flight in the difficult crisis period between 1980 and 1987 has been estimated at USD 110 billion.[4]

In most Latin American countries the state had expanded greatly its size and scope of operations. Deficits in the public budget were increasingly financed through inflationary means, a policy that eventually derailed toward hyperinflation. Failing macroeconomic policies, a bad tax system, insufficient domestic savings, massive capital flight, the lack of international competitiveness of the highly protected national industry, heavily politicized state enterprises operating at a substantial loss, a neglected agricultural sector, a badly functioning state apparatus, were all symptoms of an economic crisis that would last for over a decade and would be the worst the region had ever known.

III. TOWARDS AN 'OPEN' ECONOMY

Confronted with the extent of the crisis and under strong pressure of the international financial sector, the Latin American governments had to take drastic action. First, inflation had to be contained and equilibrium had to be restored to the economy. Second, the economy needed restructuring and the conditions had to be established for sustained economic growth on the basis of international competitiveness. The realization of these objectives implied a turn around in macroeconomic policy conforming with the prescriptions of 'The Washington Consensus'. In all of Latin America, liberalization became the 'buzz word'. The economy had to be governed by the market. Trade barriers had to be eliminated, protectionist practices scrapped and conditions for foreign investment liberalized. The role of the state was reduced, those institutions serving state-led development dismantled and state enterprises privatized. The state had to balance its budget, which resulted in mass layoff of staff and a sharp reduction of state spending in the physical and social infrastructure. In each country, decision making regarding these policies of structural adjustment involved only a limited number of actors: the president and the heads of ministries, the director of the central bank, representatives of the domestic financial sector, international banks and the multilateral financial organizations, representing the 'Washington Consensus' (IMF, World Bank and Inter-American Development Bank). These actors worked out an agreement on the general direction the structural adjustment program had to take and the international financing that would be required to implement it (see Naim, 1995:28-44; Hartlyn & Morley, 1986; Sheehan, 1987). Labor organizations were notoriously absent during these deliberations.

Few governments have openly refused to accept the reforms suggested by the international financial establishment. The existence of a concentration of power at the global level in the hands of governments and multilateral institutions strongly committed to neoliberalism would have made such refusal a costly undertaking (Peeler, 1998:146). However, there is considerable variation among the countries in the actual implementation of neoliberal policies, depending on the distribution of power within each of the societies.

Table 1 – Distribution of Income in Selected Latin-America Countries (gini coefficients)

	1979-1980	1989-1990	Latest
Argentina	0.41	0.48	0.49 (1996)
Bolivia	n.d.	0.52	0.59 (1997)
Brazil	0.59	0.63	0.59 (1997)
Chile	0.52	0.46	0.57 (1996)
Colombia	0.58	0.53	0.57 (1996)
Costa Rica	n.d.	0.46	0.46 (1997)
Guatemala	n.d.	0.59	0.56 (1998)
Honduras	n.d.	0.59	0.59 (1997)
México	0.48	0.52	0.52 (1996)
Panama	0.49	0.56	0.49 (1997)
Paraguay	n.d.	0.40	0.58 (1998)
Peru	n.d.	0.44	0.46 (1996)
Uruguay	0.44	0.42	0.42 (1989)
Venezuela	0.43	0.44	0.49 (1997)

Sources: World Bank (1997b:26); World Bank-WDI (2001:70-72); Morley (2000).

Neoliberal policies succeeded in bringing inflation under control and created a modest economic growth. At the same time, however, the income distribution in most countries has grown more unequal. Data in Table 1 shows the extent to which globalizing processes in combination with neoliberal po1icies have polarized this income situation. In several countries social emergency funds were organized – mostly with external financing – to address the most severe situations of poverty. Their contribution to structural solutions to the problem of urban and rural poverty has been small. In addition, because most of them have been managed under the auspices of the Ministry of the Presidency, they tend to become an instrument of political patronage and traditional political practices.[12]

The worsening of the socioeconomic situation of the working population wiped out the improvements that they had experiences since the 1960s. In the course of the 1980s, the purchasing power of working class income deteriorated to levels registered almost two decades before. In the cities, the informal sector expanded in response to massive layoffs by the government and private companies. In the agricultural sector, the changes in policies mainly served the large- and medium-sized producers. The *campesino* sector was considered lacking in growth potentialities and was abandoned by official politics.

Table 2 – The Formal Objectives. Methods and Actors of Development and State Reform

Objectives	Strategy	Methods	Actors	Implementation
Improving socioeconomic conditions of the poor sectors of the population Improving the national economy's capacity to compete on an international level. Consolidation policies directed toward macroeconomic stability.	Restructuring institutions in the socioeconomic sector. Reforming the system of social services, their provision and financing. Increasing productivity in the private sector. Organizing the economic institutions of capitalism (regulation of competition consumer protection, patent registration, etc.). Integration into the world economy on the basis of the competitiveness of the national business sector.	Reform of the structure and functioning of the state bureaucracy. Reformulation of responsibilities and participation in the national budget of central, regional, and local government. Reform of the judiciary and the system of law enforcement. Tax reform: organization of a more progressive revenue-raising structure and reorganization of the system of tax collection. Improvement of the quality of management of the civil service. Improvement of the functioning of parliament. Privatization of the more important state enterprises (the 'difficult' privatization). Modernization production apparatus and integration into the international economy.	The president and the cabinet. Parliament. State bureaucracy. Regional and local government. Judicial powers. Labor unions. Popular organizations. Political parties. Private enterprise, national and international. The media.	Institutional reforms with participation of all interested parties. Active involvement of the medium levels in the government influenced by institutional reforms. National policy directed toward the creation of consensus and broad support in civil society for the program of reform; amplification and intensification of the democratization process.

Table 2 presents the most salient general characteristics of the process of state reform initiated in the 1980s and 1990s. It also mentions the elements that figure (with differing emphasis) in the present debate on the relation between stable long-term economic growth, the changes in the structure and functioning of the state apparatus, and the reforms of state-civil society relations. These elements indicate a general direction of the reform process. The specific arrangements between state and market, and the impact of adjustment policies on social classes and other interest groups often differ considerably among countries. Structural adjustment has produced its own winners and losers. The privatization of public services and the reductions in subsidies, public social services and welfare provisions have worsened the distribution of income, already skewed to the disadvantage of lower- and middle-income families. The recent tax reforms initiated by many countries have not been able to correct this trend. The emphasis on indirect taxes (linked to the consumption of goods and services with a low income-elasticity of demand) must shift to taxation based primarily on income and property. The reorganization of the revenue service – a priority objective of state reform – is only in its incipient stages, and the traditional regressive state revenue-raising structure is largely intact.

Thus the lower- and middle-income strata are forced to contribute comparatively more to a state that has reduced its support of the public services that primarily serve their needs (cf. Valderrama, 1995:70-84). After 'the lost decade' of the 1980s, the real growth rate of Latin American countries turned positive again in the beginning of the 1990s. This growth trend was interrupted in 1995 as a result of the financial crisis affecting Mexico, and the recession in Argentina. Growth continued afterwards but has leveled off again in recent years as a result of the 1997-1998 Asian crisis and the worldwide economic slowdown. The average annual growth of GNP for the region in the period 1990-1999 has been 3.4 percent and several countries (Argentina, Chile, Peru, El Salvador, Dominican Republic) at times have shown superior rates until recession hit them. In the early 1990s, internal demand slowly recovered. Inflation had been brought under control. Just to mention a spectacular example, in Argentina, the inflation decreased from 1344.4 percent in 1990 to 4.2 percent per year in 1994. It has remained at that level with 4.1 percent in 1999. An important role in the battle against inflation has been played by fixed exchange rates against the dollar. However, this policy has drawbacks, such as an overvalued domestic currency, substantial shortages on the current account of the balance of payments, and a strong dependence on short-term foreign loans (IDB Annual Reports, various years; World Bank, 2001). The

2001-2002 financial crisis in Argentina has exposed the dangers of such dependence, resulting in the country defaulting on its USD 128 billion debt. This triggered off a regional recession that has threatened to cripple neighboring Brazil, has spread to other countries and has created conditions of severe sociopolitical instability (New York Times, 2001).

The 1995 financial crisis brought home the message that in order to attract capital towards productive endeavors, long-term economic and monetary stability will have to be guaranteed. The policies directed towards this objective will need broad support from the society and should contribute toward political stability. Further, the existing supporting institutional structure will have to be redesigned. The growth model which we find in many Latin American countries and which has been operating with a brand of capitalism based on a production-speculation, orientation, with little investment in long-term capital equipment, a focus on commerce, quick turnover and high short-term profits, has proved to be very unstable. Its presence has discouraged the development of more stable economic activities and has encouraged speculation. Foreign direct investment has not been able to correct this problem; on the contrary, it has contributed to the continuation of these patterns, except in those countries like Chile and Colombia that have protected themselves against short-term dependency on foreign capital.

The way Latin America has been integrated into the international economy, and the ensuing dependencies, obviously explains a considerable part of the problem. Equally important, however, are domestic factors: strong dualism in societies, the general socioeconomic inequalities, weakness of core institutions, lack of a social and political consensus regarding the long-term objectives and means of national development. Any consensus is dependent upon a broadening and deepening of the process of democratization, which at the same time, is a precondition for a successful consolidation of reform in many other areas.

IV. Globalization and Neoliberal Reforms: Effects

The globalization of the Latin American economies has proceeded at a rapid pace. Neoliberal policies have been instrumental in this process. The shift toward neoliberalism has been intimately linked with globalizing trends and with the Latin American economies becoming more fully inserted into the world economy through trade, investment and technology.

The commitment to neoliberal reform has varied substantially between Latin American countries. So has the rate at which they are shifting toward a closer integration with world markets. Northern Mexico, under the impact of NAFTA, has been advancing very rapidly and so has Chile. Venezuela, on the other hand, has maintained a very slow pace. It has become clear that just increasing the market orientation of the economies is a necessary but not sufficient condition for securing stable positions in the world economy. Extensive institutional reforms will be needed (see Table 2) to achieve this goal and to make the smaller Latin American economies in particular less prone to international crises and price fluctuations for their primary exports. In the larger countries of Latin America, the shift toward neoliberal policies has boosted non-traditional manufacturing exports. During the phase of import substituting industrialization, Mexico, Brazil and Argentina counted with a reasonably well-developed manufacturing sector, part of which has been able to achieve international competitiveness and perform successfully in international markets.

For all countries it has proven difficult to escape from the old core-periphery pattern under the new conditions of globalization. The smaller countries have, in general, retained their specialization on export of primary products, much like they did half a century ago. The larger and more industrialized countries continue to emphasize on the exports of labor-intensive consumer products or components (Gwynne, 1999:149-162).

Neoliberal policies, in conjunction with the impact of globalizing processes, feed the trend toward regionalization and an expansion of intra-regional trade. Latin America is still very much dependent on trade with partners outside the region, but this situation is changing rapidly under the influence of the regionalization projects that are in force (NAFTA, Mercosur). In the near future, present efforts to revive the older regionalization projects, like the Andean Pact and the Central American Common Market (MCCA) may be producing results. Originally, these projects were designed to lengthen the life of import substituting industrialization by enlarging the international market. Today, they may serve to ease the transition towards the global insertion of the economies. This process is not a one-way street. Globalizing influences through investment, trade technology, modern communications and transport, will meet with regionally generated production, innovation, and knowledge systems and the global-local nexus will work out differently in each individual case. Certain sectors of economy and society and, above all, certain regions and sub-regions will undergo the effects of a growing economic and social interdependence more intensively than others (Vellinga, 2000). The interregional and intra-regional differences in economic growth, income distribution, and access to resources are becoming more pronounced. The accompanying shifts in sociopolitical influences between regions at the sub-national level are affecting their potential for interest promotion at the national and supra-national levels.

The tensions between core and peripheral regions, a perennial issue in many Latin American countries, have been increasing in scope and intensity. Some regions have begun to take affairs into their own hands, promoting their interests directly on the supranational level, bypassing the national state. We find an example in the Brazilian state of Rio Grande do Sul and its interest promotion within MERCOSUR. A similar process can be observed in Monterrey, in northern Mexico, where the forces of globalization and the demands of global competitiveness have provided powerful support to the industrial bourgeoisie in their efforts to shape local conditions to their needs and to defend their interests directly and aggressively within NAFTA (Koonings, 2000:177-200; Vellinga, 2000:293-301).

These are regions with a manufacturing sector and supporting institutions that for more than half a century have followed the model of import substituting industrialization, have been forced to restructure and find their way in the international economy. Several other examples can be found in Latin America. We mention São Paulo (Brazil), Medellin (Colombia), Córdoba (Argentina).[5] Next to these regions, we find those without longstanding industrial tradition, launching themselves on the road towards labor cost-intensive production, often concentrated in export processing zones, and with a weak institutional structure not capable of supporting higher level production processes. Examples abound in Mexico, Central America and the Caribbean.

The integration into the world economy has made those regions specializing in manufacturing as well as those emphasizing primary goods production even more dependent on shifts in the international economic cycle than they already were before globalization impacts them. It has proven very difficult for them to establish and consolidate stable export positions. Even an advanced industrial region like the Mexican Northeast has been suffering from lack of stability in the export performance of its major branches of industry (Vellinga, 2000:300; Pozas, 1999).

Most Latin American countries have been under great pressure to restructure the labor markets, to keep wage costs at low levels, and to make employment practices more flexible in order to create more competitiveness internationally. The power of the trade unions has declined in almost all countries, leaving labor more vulnerable and insecure. Corporatism has lost influence under neoliberalism as a mechanism of interest representation. Since the emergence of labor as a political actor in Latin America in the 1930s, corporatism has served as a system of organizing societal interests along functional lines. The state regulated labor markets through complex legal codes and institutions. The union movement was co-opted and controlled by the state. Union autonomy was exchanged for favorable settlements regarding wages and working conditions, and the prerogative to distribute the social welfare benefits granted by the state. This system is not working to the extent it used to before. Wages and working conditions are increasingly being settled through collective bargaining, either at the firm level or with the employers associations without state intervention. This way, the labor unions have gained independence and more room to run their own affairs, but they have lost in political representation within the arenas of the state. The void this has created has been filled increasingly by voluntary associations, political movements, NGO's and the like. Political parties are weak everywhere, with the exception of Costa Rica and Uruguay. A return to corporatist-like structures is not at all impossible (Hagopian, 1998:109ff; Gwynne & Kay, 2000:141-156). In most countries, community involvement through the establishment of collective bodies, committees and councils that seek to influence (directly or indirectly) the definition of government policies, shows a resemblance to the traditional corporatist ways. Neoliberal reforms and economic liberalization have impacted deeply in Latin America. However, they have not realized growth with equity.

Table 3 – Added Value of Production Sectors, Latin America and the Caribbean 1990-1999 (in percentage of GDP)

Sector	1990	1999	% change 1990-1999
Agriculture	9	8	-11
Industry	36	30	-16
Services	55	62	+13

Source: The World Bank-WDI (2000:200. 9)

Wage levels have suffered badly during the first phase of neoliberal reforms as a result of economic restructuring and the pressures to keep real wages down, as domestic companies tried to survive in the face of international competition. However, when economic growth returned to the region, these low levels of income continued. The inflow of foreign capital and the liberalization of trade and investment have produced an increase in wealth among the top two deciles of the income distribution while the social debt has remained high – i.e. society's debt to the poor and unemployed. This lack of balance has been affecting the nature and scope of the democratization process. A full-fledged process of democratization should include civil, political and social citizenship. A certain degree of success in all these areas will be necessary to ensure success of the process as a whole. In situations of continuing extreme socioeconomic inequality, democratization proceeds on shaky ground. In this light, many governments have felt the need to increase social expenditure, in particular through the improvement of access to basic social services: education, health, housing and social security. Decentralization of these services, in particular education and health, to municipal and provincial levels was recommended by multilateral institutions like the World Bank and the Inter- American Development Bank as a way of bringing this about (World Bank Report, 1997a; Peterson, 1997). Until now, however, decentralization in many countries has meant a transfer of responsibilities to the lower levels of government without a corresponding decentralization of resources from the national budget (Wilson et al., 2000:7-56).[6] Also, while decentralization was meant to move government closer to the people and to improve delivery of service, it increased at the same time the maneuvering room for traditional regional and local elites with the possibility of a continuation of inequality in the access to social welfare.[7] The reform process – as listed in Table 2 – is still very much incomplete. Actually, in most countries the reform of the structure and functioning of the state bureaucracy, the judiciary, the tax system and other institutions that would be supporting an alternative model of development are in the incipient stage.

Employment has remained the central problem of Latin American economies. They have not been able to restore jobs to their former levels, at least not in those sectors that had been hard-hit by the crisis in the 1980s. Growth of value added centered on the service sectors (see Table 3), which in most countries came to employ close to two-thirds of the economically active population.

Economic growth has depended on the development of capital intensive activities in commercial agriculture and manufacturing. The growth in labor-intensive tradables was slower than one would have expected, with the exception of *maquiladora*-type manufacturing. The reforms of the 1980s and 1990s have left overvalued exchange rates, thereby hampering exports. Trade liberalization has reduced the relative cost of capital goods, which has stimulated capital-intensive operations. Considering the sectoral structure of growth in the course of the 1990s, the comparative advantage of Latin America as a whole appears to be located in production based on natural resources rather than on the abundant presence of unskilled labor (Kay & Gwynne, 1999:68-97).

V. Globalization and Regional Response: Future Trends

The opening up of the Latin American economies has left them even more vulnerable to the impact of international economic cycles than before. The shockwaves caused by the financial crisis in Asia in 1997 -1998 affected Latin America immediately. Commodity prices – in particular those for oil, copper, coffee, sugar, wheat – dramatically declined causing the unit value of the region's exports to shrink by an estimated 5.2 percent. In most countries, the growth of GDP dropped considerably between 1997 and 1998: in Argentina from 8.4 to 4.5 percent, in Brazil from 7.1 to 0.5 percent, in Chile from 7.1 to 5.0 percent, in Mexico from 7.0 to 4.6 percent, and in Peru from 7.2 to 1.0 percent. Total capital inflows to the region in 1998 were: USD 64 billion, as against USD 79 billion in 1997. Natural disasters (El Niño, hurricanes Mitch and George) compounded difficulties for many countries in the region. The volume of capital entering the region further dropped to USD 50 billion in 1999. Regional economic growth further decreased to 0.3 percent in that same year (IDB Annual Reports; World Bank-WDI, 2001). Economic development in the region since then has been further influenced negatively by the slowdown of growth in the western industrial economies and the sharp increase in capital flight, facilitated by the fact that most foreign influx of capital had been portfolio investment.

Economic growth in the area has remained vulnerable. Its dependencies with regard to changes in the international economy are many and manifold. In addition, the impact of globalizing processes has worsened existing inequalities and has increased the socioeconomic differences between classes and regions. Large sections of the population are not enjoying any benefits of economic growth while bearing the brunt of economic downturns. Severe tensions have occurred in most countries, manifesting themselves in riots and plundering. These conditions constitute grave threat to the incipient processes of democratization and undermine the stability of the 'investment climate'. Democratization in Latin America has failed to create the conditions for a broad popular participation. Representative institutions in the region remain weak. The traditional networks of interest representation, political parties or state-sponsored labor unions are lacking power to pul1 new voters into their organization, while increasingly losing grip on their existing memberships. Parties lack discipline and cohesion and are often mere vehicles to satisfy the personal ambitions of politicians (Hagopian, 1998:106). Social reform agendas that would have drawn voters and increase political participation are still largely absent (Vellinga, 1996:17-38). There is considerable debate on alternatives to the top-down, conditionality-driven, outside-expert led strategy of the Washington Consensus and the need to create room for policies that are focused on equitable, sustainable and democratic development (Gore, 2000:789-804; Kay & Gwynne, 2000:49-69). This includes a reevaluation of the role of the state in the development process. There are fewer disagreements between economists who favor a strong developmental role for the state and those who support a weak state with a free and unrestrained working of market forces. Many participants in the debate are taking a middle ground between the two positions. The ideas on the relationship between state, civil society and the market, have shifted toward neostructuralist-inspired options. The experience with the policies directed towards rapid across-the-board opening up of the economy to the impact of world economic forces, has revealed that economic growth and structural change is much better served by proceeding very carefully and gradually in this area. National enterprises need time to prepare for external competition. Also, their export capability should be supported by special measures. Growth-oriented macroeconomic policies should be accompanied by productive development policies directed toward domestic technology development, financial development, human resource development, physical infrastructure development and toward the improvement in productivity and competitiveness in all production sectors, manufacturing as well as agriculture and natural resource based activities (ECLAC, 1995:161-190;UNCTAD, 1994:57-69).

The implementation of such policies will require extensive cooperation between the public-private sectors, including a special role for the state and (market-friendly) interventionism which seeks to guide, not replace, the market. The developmental activities of the state should be the result of a national political consensus regarding priorities and long-term budget allocations, and receive feedback from the market continuously. State assistance should be made conditional on performance. This makes a further retreat of the state in any aggregate sense undesirable. It is true that state action and public-private partnerships are taking place within the constraints of a world dense with flows of trade, money and regulatory obligations. Even then, however, the state continues to have considerable power in the area of economic and social policies. Neither the increasing globalization of the world economy nor the projects of regional integration and cooperation will emasculate the national states. They will continue to retain wide discretion over the extent in which they control resources.[8] Most Latin American countries have experienced substantial decreases in public spending since the beginning of the 1980s when the neoliberal offensive took effect. However, in view of the immense needs in virtually all sectors of the Latin America economy and society to which the market does not necessary respond, it is hard to imagine future developments for the continent that would include a permanent contraction of public sector activity .

The first precondition for a future role of the public sector – including a capacity to plan and implement policy as part of a course of action combining stable growth with equity and extensive institutional reform supporting democratization – remains a resolution to the fiscal crisis of the state. The resistance by the privileged sectors against any type of tax reform that involves increasing their tax burden and improves collection cannot be underestimated; it will be furious. However there are no alternatives. Other options – increasing public debt or printing money, both preferred choices in the past – are no longer viable courses of action. Increasing public savings and a reduction of the public deficit are equally difficult measures, but equal1y necessary to 'bring the state back in'. The search is for a strategy that would not only restore general investor's confidence and revive the credit of the state, but also begin to resolve the problem of 'the social debt' and the need to realize civil, political and social citizenship for Latin Americans. The challenge confronting Latin American countries in the first decade of the twenty-first century will be to balance the exigencies of democratization with the implications of neoliberal macroeconomic policies within a context that is increasingly influenced by globalizing processes, and in the presence of embedded political culture and persisting traditional political practices.

Notes

1 A good analysis of the essence of populism as a political formula, can be found Stein (1980:3-17).

2 In the course of this process the labor movement was incorporated into the political system and new institutions of state-labor and capital-labor relations were created. Those labor organizations that managed to operate with some degree of autonomy in relation to 'official' politics were few in number and were mostly found in primary production enclaves in mining and plantation areas.

3 The classic study of the rise of bureaucratic-authoritarianism is, of course, Guillermo O'Donnell's in *Modernization and Bureaucratic-Authoritarianism* (1973); see also Collier (1979).

4 IDB Annual Reports (various years); World Bank - WDI (2001). The external debt of the Latin American countries has remained a major impediment towards final economic recovery .The total debt of Latin America and the Caribbean in 2000 amounted close to USD 814 billion.

5 See Cerutti & Vellinga (1989). Another interesting case of regional industrialization: Arequipa (Peru) was not so successful in adapting to the new conditions and went down, its industries being takes over by Lima-based interests.

6 The Bolivian model of decentralization includes substantial budget transfers to the lower administrative levels, but within Latin America this has been the only case that has gone that far. See Wilson & Raggard (2000:7-56).

7 The Brazilian case is notorious. cf. Roniger (1987:71-99); Castañeda (1993:366- 373). Chile has tried to avoid these problems, see Lovemen (1995:134-137).

8 Hobsbawn emphasizes the indispensable functions of the state in the redistribution of national income, functions that cannot be carried out by private agencies or through market mechanisms. See Hobsbawn (1996:267-278); also the various World Development Reports published by the World Bank, starting with *The State in a Changing World,* World Development Report (1997).

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